

**INTRODUCTION**

Meetings between regulatory staff and the board of directors – the individuals ultimately responsible for an institution’s affairs – serve a variety of functions. They provide opportunity for interaction, and they facilitate long-term communication, which is especially important when the regulatory process reveals significant adverse information. Meetings help keep directors and regulators mutually informed by providing them an opportunity to discuss any of the following items:

- The examination process and findings.
- The institution, its functions, and plans.
- The general financial environment.
- Industry-related concerns.

Meetings give regulators an opportunity to obtain commitments from the board for corrective action.

Meetings with the board are distinct from management meetings, also known as exit conferences, closing conferences, or exit interviews. Examiners meet with executive management near the end of an examination to review overall findings and obtain commitments for corrective action. (See Thrift Activities Regulatory Handbook Section 070, Overall Conclusions.) The examiner in charge (EIC) should notify management of all examination-related items slated for discussion with the board, except recommendations to remove management.

**TYPES OF MEETINGS**

There are two primary types of meetings between regulators and the board: regular – those relating to examinations; and special – not primarily for presenting examination findings. However, a meeting can serve multiple purposes. For example, a regular meeting can serve to acquaint regulators with the board, enhance communication, and present findings.

**Regular Meetings**

A regular meeting can result from regular, special, or limited examinations. Its primary purpose is to discuss findings and agree on corrective action. A secondary purpose is to gather information regarding a new function for the institution. These meetings can also enhance the directors’ understanding of the regulatory process and establish a rapport and build lines of communication with regulators.

You should consider attending a regularly scheduled board meeting that occurs during an examination. The purpose is not necessarily to discuss findings although it may be an opportunity to discuss scope and preliminary findings. The main objective, however, is to observe the board in action and establish a rapport.

If an institution’s rating is adverse, you should arrange to meet with the board after the examination. Any of the following indicators denote an adverse rating:

- A composite rating of 4 or 5.
- A composite rating of 3 if the rating represents a downgrade from the previous examination.
- A CRA rating of Needs to Improve or Substantial Noncompliance.
- A Holding Company rating of Unsatisfactory.

Generally you should meet with the boards of all 3-rated institutions. However, the EIC, in concurrence with the field manager, determines whether it is necessary to meet if the 3 rating is not a downgrade from a prior examination.

Sometimes you might schedule a meeting with the board of an institution that does not have an adverse rating. This is appropriate when the EIC notes adverse trends, increased risk profile, or other matters that need to be brought to the board’s attention. If no issues exist, the EIC

should honor any request from management to forgo a meeting.

If an institution's assets exceed \$1 billion, you should schedule a meeting with the board regardless of adverse trends. The field manager must concur with any decision to forgo a meeting.

While you normally meet after the examination, you could arrange a regular meeting during the last week. This is appropriate if you have already discussed the examination results with management. Your meeting can also coincide with the board's next regularly scheduled meeting. You can mutually agree on another time to meet as long as that date is within 60 days of completing the examination. Also when scheduling, consider whether directors would benefit from receiving a copy of the report of examination (ROE) prior to the meeting.

The meeting agenda should include the following issues that warrant the board's attention:

- A comparison of the institution's policies, practices, and reporting systems with those of a well-managed, comparable institution.
- Corrective action taken by senior management.
- The institution's internal control system and internal audit coverage.
- The extent to which senior management and directors are receiving information needed to manage the institution effectively.
- Significant concerns regarding the quality of earnings.
- Management's long-term plans.
- Effectiveness of management personnel.
- The board's involvement in the institution's affairs.

Try to discuss ways to correct deficiencies without directing a course of action. If there are no major deficiencies, discuss the institution's overall condition and try to get the board's view of its future operations. Encourage directors to discuss matters that interest them.

### **Special Meetings**

Reasons to schedule a special meeting include the following:

- To effect a supervisory action, such as a supervisory agreement or cease and desist order.
- To gather information in order to act on a proposal, application, or request by the institution.
- To discuss an institution's progress toward corrective action.
- To become acquainted following a change in directorate or a change in regulatory staff.
- To comply with directorate's request to meet.

### **MEETING PREPARATION, PRESENTATION, AND DOCUMENTATION**

Prepare yourself thoroughly when meeting with the directorate. You should conduct yourself professionally and prepare sufficient documentation to ensure appropriate follow-up. A successful meeting will include all of the following steps:

- Preparation
  - Ensure that the scheduling and selection of attendees satisfies the meeting's goal. See the discussion below on participation.
  - Choose attendees and determine their responsibilities.
  - Select a chairperson.
  - Determine time and location.
  - Develop an agenda. Refer to the discussion below.
  - Notify participants of the meeting and its purpose.
  - Meet with regulatory staff participants to discuss the agenda and other related issues.
  - Prepare and organize supporting data, including comparative figures and ratios that

indicate trends and graphs to illustrate significant points or trends.

- Prepare any handouts or overheads for presentation.
- Presentation
  - Conduct the meeting in a professional, objective fashion.
  - Present the agenda (refer to discussion below) and follow it within reason.
  - Establish good communication and maintain credibility.
  - Encourage directors' involvement and solicit questions.
  - Answer questions accurately. When unable to do so, refer inquiries to the OTS regional or Washington office.
  - Obtain commitment from board to correct deficiencies, if appropriate.
- Documentation
  - Evaluate and document results of the meeting. Refer to the discussion below.

### Participation

You should meet with the entire board to ensure all directors are aware of regulatory findings and commitments to correct deficiencies. If all directors cannot attend, you can meet with a group, such as the audit, examination, or executive committee if:

- Outside directors are present.
- There are no material or adverse findings.
- The circumstances do not require a full board.

Honorary directors can participate in meeting discussions, but may not vote. Any person or organization connected with the institution, auditor, or holding company representative can attend the meeting upon board resolution. However, you can excuse such people if appropriate. As a rule, state supervisory authorities should attend meet-

ings with the boards of state-chartered institutions.

EICs should meet regularly with the board. This allows them to discuss strengths and weaknesses noted during the examination and to answer any questions. Sometimes it is advantageous for the EIC to attend special meetings, too.

### Agenda

To ensure an orderly meeting, you should prepare a detailed outline of discussion topics. The following outline is not all-inclusive but intended only as a guide:

#### *Sample Agenda Outline*

- Introductory remarks by regional office representative
  - OTS policy regarding board meetings
  - Purpose of meeting
  - Type and scope of examination
- ROE results
  - Overall condition of the institution
  - Capital
  - Asset quality, internal loan review, and reserves
  - Management (including quality, depth, and continuity)
  - Earnings
  - Liquidity
  - Funds management
  - Sensitivity to market risk
  - Internal controls and audit coverage
  - Policies and procedures
  - Reporting systems
  - Management information systems

- Management reports to the board
- Reports of the board and committees
- Thrift Financial Reports
- Planning process
- Personnel
- Compliance systems
- Legislative and regulatory compliance (identify significant violations)
- Supervision by board
- Service corporation and holding company examination results
- Summary
- Corrective action (after discussion with appropriate regulatory staff)
  - Summary of problems
  - Board commitments
- Disclosure of ratings
- Other matters
- Questions from the board
- Overall conclusions

**Documentation**

After the meeting, prepare a memorandum to record results, date, time, location, and participant's names and titles. Describe the items discussed, the board's reactions, and any commitments for corrective action. If the board promises corrective action, send the memorandum to them for concurrence.

At the conclusion of any meeting conducted by the board (rather than the regulators), you should ask for a copy of the minutes and review them for accuracy.

Keep a copy of the post-meeting memorandum and agenda in the appropriate supervisory file. You should amend the institution's regulatory profile to reflect any changes or future commitments as a result of the meeting. See Thrift Activities Regulatory Handbook Section 050.

**REFERENCE****Office of Thrift Supervision**

OTS Thrift Safety and Soundness Report of Examination Instructions